

**STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
300 Capitol Mall, 17th Floor
Sacramento, California 95814**

**FILE NO: RH01018834
NOTICE FILE NO: Z02-0628-01
DATE: OCTOBER 23, 2002**

Subject: Weighting Methodology for Automobile Insurance Rating Factors

FINAL STATEMENT OF REASONS

UPDATED INFORMATIVE DIGEST

Existing law requires that premiums for private passenger automobile policies be determined by the application of the three enumerated mandatory factors and the optional factors in decreasing order of importance. Existing law requires that the optional rating factors be adopted by regulation and that the regulation set forth the respective weight for each factor.

Existing regulations calculate the weight for all of the rating factors by a technique referred to as “the single omit method.” Under the single omit method, for every insured vehicle and for every rating factor – looking at each factor one at a time – insurers calculate the difference between the total premium including the factor under review and the total premium without the subject factor. The single omit method requires insurers to perform millions of calculations to determine the weight for each factor.

This amendment of existing regulation will simplify the weighting process through the use of summary data that is representative of the underlying insured vehicles. This amendment uses the percent of exposure and the average premium of each rating factor category to calculate weight. The data that is required by this proposal is easier to collect and involves fewer calculations than existing regulations while allowing the results to remain substantially similar to the single omit method.

THE FOLLOWING AMENDMENTS ARE THE ONLY CHANGES TO THE INFORMATION THAT WAS PRESENTED IN THE INITIAL STATEMENT OF REASONS:

Section 2632.8 Factor Weights.

On October 1, 2002 the Commissioner invited public comment on changes to the originally proposed regulation. Section 2632.8 had been amended to provide a written representation of the formula specified for determining the weight of a rating factor. Pursuant to the Notice of Availability of Revised Text the Department would accept written public comments until October 18, 2002. No comments were submitted on the amendment to the regulation.

NO MATERIAL OTHER THAN THAT PRESENTED IN THE INITIAL STATEMENT OF REASONS HAS BEEN RELIED UPON BY THE DEPARTMENT OF INSURANCE.

MANDATE ON LOCAL AGENCIES OR SCHOOL DISTRICTS

The Department has determined that the adoption, amendment or repeal of the regulation does not impose a mandate on local agencies or school districts. The regulation neither requires nor prohibits action on the part of local agencies or school districts.

ALTERNATIVES

On January 23, 2002, pursuant to Government Code §11346.45 (a), the Commissioner invited written public comments on three proposals (Alternatives 1, 2, and 3), which he believed would implement a simplified methodology to calculate the weight of the rating factors. The Commissioner specifically requested comments be submitted by February 25, 2002 regarding the advantages and disadvantages of each of the proposals and whether the proposals accomplished the stated goal.

Of the eleven (11) comments received by the Department, four (4) comments supported Alternative 1 (the method adopted in the proposed regulation) because they believed it is easier to use than the single omit method as well as Alternatives 2 and 3; that it would be easier to implement than the other two alternatives; and, that the results of Alternative 1 closely mimic the results of the single omit methodology. Three comments supported Alternative 2 because they believed that it produced results that were more consistent with the single omit method than the other alternatives. Alternative 3 was not favored in any comment because of concern that this alternative would cause instability in premiums due to the erratic nature of loss cost data.

The Commissioner selected Alternative 1 because it is a viable substitute for the more labor-intensive single omit methodology. The changes proposed in Alternative 1 will enable the Department to more easily review and validate the data that is submitted by insurers in their class plan filings. Alternative 1 also the burden of performing the calculations necessary to compute weight. While Alternative 2 more closely replicates the single omit method, the Commissioner rejected this alternative because it would require insurers to submit summary data, which the Department would be unable to verify. The Commissioner rejected Alternative 3 because of the concerns that it would cause instability in premiums.

The Commissioner has not identified any other reasonable alternative that would be more effective in carrying out the purpose for which the regulations are proposed or that would be as effective or less burdensome to affected private persons than the proposed regulations.

SUMMARY AND RESPONSE TO OBJECTIONS OR RECOMMENDATIONS

A summary of each written comment, objection, and/or recommendation (no one appeared and offered testimony or comments at the public hearing) received during the public comment period and the response is attached hereto.